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Indian Currency in Retrospect

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INDIAN CURRENCY IN RETROSPECT

The history of Indian currency does not begin with our accumulation of sterling balances or with the fixation of exchange at 1s. 6d. or with the closure of the mints to the free coinage of silver in 1893. What we see around and immediately ahead of us is dark, dismal and depressing. But the landscape has not been always so. A glorious view is presented by the past which was bright, cheerful and inspiring.

The Ancient Period

That past stretches back to pre-historic times. Historians having done little work on Indian history, were long wedded to the theory that the first cradle of civilisation lay in Egypt. Since the discovery of Mohenjo-Daro they have had to revise their belief and have come to realise the antiquity and importance of the Indus Valley civilisation. But this is not the same thing as Indian civilisation which is older still.

The Mohenjo-Daro excavations have shown that the Indus Valley civilisation which has been dated about 3000 B. C. was conversant with the use of gold, silver, copper and with the craft of the metal-worker and that it had extensive trade relations with contemporary civilisations. From this it can be safely inferred that a system of metallic currency was not unknown to that age.

In the Stupa Area in Mohenjo-Daro have been found much-worn coins resembling in size and shape the large copper issues of Kadphises I and Kadphises II and also hoards of copper coins of the Kushan King Vasudeva I and of what are presumably local issues, of a date subsequent to that of the Kushan King.

References are to be found in the Rig Veda to the use of unstamped lumps of the precious metals as currency. Gold coins in ancient India were called Nishka or Pada, etc.

The Mahabharata, belonging to a subsequent period, speaks of copper and gold coins and in the Manusmriti are indicated in detail the weights and comparative values of coins of gold, silver and copper current in those ages. Pan

and Karshapan were the names of silver coins current during Buddha's time. The Arthashastra of Chanakya makes mention of currency functionaries, such as the Lakshnadyaksha or the Superintendent of the Royal Mint and the Ruprakarsha or the Examiner of Coins.

The ancient Indian coins used to be punch-marked, without any writing but with symbols impressed on the face by means of punches. At a later stage, they came to be cast from dies. Numismatic researches have exploded the theories once prevalent ascribing a foreign origin to ancient Indian coinage and have established that it was evolved in India itself. In the earlier period, the coins did not bear the name and portrait of the king issuing them. Their design and execution came to be immensely improved during the reign of the Imperial Guptas.

Light is thrown on economic conditions, and particularly the ratio between gold and silver, in ancient India by the following extract from the evidence given before the Fowler Committee on Indian currency by Mr. Macleod:—

> "In the very earliest ages India had a gold currency. India produces much gold but no silver. But from a very early period, Western nations imported vast quantities of silver into India partly to purchase gold, because gold was cheaper there than anywhere else—the ratio of gold to silver in Persia was 1 to 13, in India it was 1 to 8—and also to purchase Indian products. India was in those days a very highly civilised country while Western nations were still barbarous. Consequently, India wanted no Western products and would sell her own products for nothing but precious metals."

The limited space at my disposal will not permit my speaking of the ancient past at greater length.

The Pre-British Period

In the Middle Ages, Altmish introduced an Arabi coin with the silver 'tanka' of 173 grains, the ancestor of the rupee, as the standard coin. But it was Muhammad Tughluq, that "prince of moneyers," who made the most daring and revolutionary experiments. His attempt to introduce a token cur-

rency of copper coins failed because first he omitted to make coinage a state monopoly and secondly, provided no safeguards to check forgery, but above all, because the innovation was far too ahead of the times. Sher Shah, the able Afghan ruler and indefatigable administrator, swept away the mediæval coinage, introduced the silver rupee of 172.5 grains and also issued a copper coin called the *dam*. Akbar followed in his footsteps. The *dam* was the coin generally current and State revenues, down to the time of Aurangzeb, were calculated in *dams*.

But the price was so low that copper coins of even lesser denominations such as the *damri*, which was one-eighth of the *dam*, had to be minted. Indeed, for the pettiest daily transactions cowries were used, while the detailed items of the Imperial accounts were recorded in jitals, which were one-twentieth of the *dam*. The jitals, however, were never coined but figured only on paper to facilitate accounts being kept to the one-thousandth part of a rupee.

The rupee was of pure silver and the *dam* of copper weighed 323·5 grains. A number of gold coins of varying denominations and descriptions were also coined and at the royal treasuries gold could be changed for silver or copper and vice versa. There was no substantial change in Moghul currency after Akbar's death. The rupee was worth 40 *dams* up to 1616 and about 30 dams from 1627 onwards being equivalent to 2s. 3d. in English money.

The Mohammedan and Hindu rulers of Central and Southern India, who happened to be outside the pale of Delhi's suzerainty, always had their own coins and while the Mohammedans favoured silver for their currency, the Hindu predilection was for gold. The gold Hon was the standard Maratha coin; coinage was licensed by the government for a fee and the weight, quality and denomination were fixed. When the Moghul Empire broke up and a multitude of petty states and municipalities rose from its ruins, the latter signalised their sovereignty by striking their own coins.

The Rupee Standardised

Thus it was, when the East India Company came on the scene, that they found in circulation as many as 994 different

coins of gold, silver and copper of varying weights, denominations and finenesses; and it started to standardise the currency. The first action was taken in 1818 in Bombay and then in 1823 in Madras when it introduced the silver rupee (weighing 180 grains 11/12th fine) as the standard coin. This was followed by the Act of 1835 which made the silver rupee a standard coin. The gold coins ceased to be legal tender, but their coinage continued. A gold coin having no legal tender quality could have no meaning, but absurdities of the kind are not unknown to the history of British rule in India.

By the Proclamation of 1841, the Government undertook to receive gold coins at public treasuries in payment of public dues at the face value. They stopped this practice, however, subsequently when the price of gold began to fall as a result of new discoveries of gold mines in California and Australia. From 1st January, 1853, the receipt of gold coins in payment of public dues was stopped. Gold thus lost all place in the currency system of India except that it continued to be coined to meet the public demand for it.

In 1853, a proposal to introduce gold currency was reconsidered and in subsequent years the Government of India agreed to receive and pay when convenient, sovereigns and half-sovereigns minted at any authorised mint in England or Australia at the rate of Rs. 10 and 5 respectively. The gold coins were not to be legal tender, however. The scheme, therefore, failed as it was bound to.

In 1866 there was appointed a Commission under the chairmanship of Sir William Mansfield. This Commission recommended that gold coins of Rs. 15 and 5 denominations should be minted and that the currency should consist of gold and silver. But this again led nowhere.

The real crisis, however, developed when from 1873 onwards the price of silver began to fall. As the Indian currency was based on silver its exchange value in terms of gold naturally began to depreciate. Those who looked upon the Indian market as their close preserve felt extremely alarmed. Furthermore, Britishers in the services and in trade who remitted money to England too were averse to a falling exchange. Such interests set up a howl demanding the closure of the mints to the free coinage of silver and the stabilisation of ex-

change. The agitation in the early nineties was led by Mr. Mackay, later Lord Inchcape.

On the other hand, Indians welcomed a falling exchange since it stimulated production and export. The policy of the Government, however, was not to promote Indian but British prosperity. So in 1892, a Committee was appointed under the chairmanship of Lord Herschell to consider the position, especially with a view to prevent a fall in the exchange value of the rupee. The Committee recommended that the mints should be closed to the free coinage of silver, and that the exchange value of the rupee in gold should be provisionally fixed at 1s. 4d. On the day the Report of the Committee was signed, the exchange rate was actually 14·625d. According to the Committee's recommendation fixing the exchange value of the rupee, Government was to provide rupees in exchange for gold tendered to it at the rate of Re. 1 for every 7·53344 grains of fine gold, which meant in effect a 16d. rate.

India strongly protested. She knew what the effect of such bolstering up of exchange was going to be on her industries and general economy. But what was meat for India was poison for England. And the latter's will always prevailed. Efforts to appreciate Indian exchange, whenever an opportunity for it has presented itself, have continued even in subsequent years.

In spite of this policy, the exchange rate fell in 1894 to about 1s. 1d. With stringent deflationary measures, such as stoppage of all fresh coinage, withdrawal of silver rupees from circulation and melting the same and thus creating an artificial stringency of currency, the exchange rate was raised from 13d. to 15·9d. in 1898. When the Government found that the exchange rate had been pushed up to the level desired by them, they began to think of the future.

Another Currency Committee, presided over by Sir Henry Fowler, was appointed in 1898. The Committee with a view to the "effective establishment of a gold standard and currency" recommended that,

(1) The rate of exchange should be permanently fixed at 1s. 4d. gold;

(2) The British sovereign should be made a legal tender and a current coin in India;

(3) Indian mints should be thrown open to the unrestricted coinage of gold sovereigns on such terms and conditions as governed the three Australian branches of the Royal Mint;

(4) Profits from the coinage of silver rupees should be accumulated in a special reserve fund to be kept in gold to ensure the convertibility of the rupee currency;

(5) Rupees should remain unlimited legal tender;

(6) The Government should continue to give out rupees for gold; but no legal obligation should be imposed on the Government to give out gold for rupees.

There were various other recommendations, but these are the most important ones.

India was not to have any gold coinage of her own, nor was there to be any liability on the Government to provide gold in exchange for rupees. Thus from the very beginning no true foundation was laid for the establishment of a gold standard with a gold currency in spite of the Committee's clear recommendation, accepted by the Secretary of State, for the establishment of an "effective gold standard."

In 1902, the proposal of minting sovereigns in India was dropped, as the British Treasury offered stiff opposition to it from more than one angle. The Government of India themselves admitted in their despatch to the Secretary of State that "no public explanation was given in India of this sudden recession from what had hitherto been regarded as an essential feature of the currency policy inaugurated in 1893 and definitely established on the recommendations of the Currency Committee of 1898." And the gold standard reserve came to be located in London, the profits on silver coinage being remitted there under the direction of the Secretary of State.

The Fowler Committee had recommended that this Reserve should be kept in the form of gold. The Secretary of State interpreted gold to mean also securities which could be turned into gold, and as the result of this interpretation the Gold Standard Reserve came to consist very largely of sterling securities which, as the outbreak of the World War in 1914 was soon to demonstrate, were by no means the same

thing as gold. And in 1907 a substantial sum was drawn from that Reserve even for expenditure on railway development.

Thus in place of the proposed gold standard we came to have the gold exchange standard which lent itself excellently well to manipulation in England's interest. The gold standard to which the authorities stood committed was given a quiet though indecent burial. But even the gold exchange standard could not survive long.

In 1913, the Government of India appointed another Commission under the chairmanship of Mr. Joseph Austin Chamberlain to make recommendations particularly with regard to the location and use of reserves and balances and the measures taken to maintain exchange and to report whether the existing practice in such matters was conducive to the interests of India. The Commission gave their blessings to the then existing practice and reported that to encourage an increased use of gold in internal circulation was not to India's advantage and that the people of India neither desired nor needed a gold currency. As regards the location of the reserves, they naturally voted for London. It was curious that the Chamberlain Commission should have reported against the gold currency saying "it was neither desired nor needed in India." Sir James Begbie, one of the members of the same Commission, wrote in his note of dissent that the Indian public preferred gold to silver rupees. From 1909-10 to 1913-14, there was on an average an annual absorption of about 9 crores* of rupees and of 11 crores of sovereigns and half-sovereigns which conclusively proved that India preferred gold to silver.

World War I

With the outbreak of World War I, new problems arose. Between 1914 to 1918 India had a surplus export which averaged nearly 78 crores of rupees per year. In the quinquennium preceding the war, the corresponding figure had been 80 crores per year. But on account of the free import of treasure in the pre-war period, it was not difficult for India to receive the payment due to her. India imported from 1909-10 to

* 1 crore=10 million.

1913-14 treasure at the rate of 36 crores per year against her export surplus. But during the five years of the War, India received on an average only 10 crores of treasure per year because of the disappearance of gold from the free markets of the world. India thus ceased to receive actual payment for the goods and services that she continued to supply on credit to Great Britain. In the words of Sir William Meyer, the then Finance Member, "India was rendering to the Empire in financing war expenditure abroad an essential service." India had to incur huge expenditure on account of the Allies without being reimbursed either in gold or silver. This caused her serious inconveniences which were called by the Finance Member India's "war sacrifice."

The note circulation which amounted to 66 crores in March 1914 rose to 183 crores by December 1919. All this expansion of the note currency was backed merely by British Treasury bills. Sir William Meyer again correctly put it when he said "few people I think realise the extent to which we have been able to assist His Majesty's Government by these operations."

To put the position in a nutshell, we were providing large quantities of goods and services in India and abroad to His Majesty's Government for war purposes for which we were paid neither in goods nor in silver nor in gold, but in British Treasury bills. Did we have inflation? If we had inflation "it was different from the inflation witnessed in most of the belligerent countries." It was caused by the acceptance in London of payment in sterling which could not be repatriated to India because India has no sanction to demand such repatriation. And then another extraordinary thing happened. As a result of inflation, the exchange rate should fall. But suddenly the rupee exchange began to appreciate. When the price of silver began to rise the Government started stepping up the exchange rate which had been fixed at 1s. 4d. gold. Almost overnight, the so-called gold exchange standard was converted into a kind of silver standard without anybody being aware of it.

Had India been on a real gold or gold exchange standard, the rise in the price of silver would hardly have mattered. The Government could have easily reduced the silver content

of the rupee and thus met the silver scarcity so long as it got gold in exchange for its outgoing rupees or for its exports. The silver rupee was only a token coin—a kind of note printed on silver. But the fact of the matter was that although at the end of the last century the Indian currency system had been switched over from the silver to the gold standard, subsequently converted into the so-called gold exchange standard, there was always a mental reservation on the Government's part in treating it as such. And as soon as the storm reached a high pitch, they threw the gold exchange standard overboard and practically went back to the silver standard without saying this in so many words. That explains their action in raising exchange from 1s. 4d. by successive stages. As the silver scarcity grew, the exchange rate rose and by December 1919 it had gone up as high as 2s. 4d.

In 1918, the United States Government released nearly two hundred million ounces of silver for the Government of India. A number of other measures were taken at this end to bring the situation under effective control, but they were not quite successful. The convertibility of notes into silver rupees became increasingly difficult and this led to even a small discount on notes in many parts of the country.

Whenever England wants to get a thing done or to leave it undone, it usually appoints a commission or a committee to go into the matter. So, at the end of the war again, in 1919, a Committee was appointed under the chairmanship of Sir Henry Babington Smith to examine the situation and make new recommendations. This Committee came to make a most extraordinary recommendation. It recommended that the exchange value of the rupee should be fixed at 2s. gold. At the time of the publication of its Report, the exchange rate was about 2s. 4d. sterling. Since, however, the recommendation was that rupee should be linked to 2s. gold, the exchange rate shot up to 2s. 10d. sterling which was equivalent to 2s. gold. We had inflation and at the same time we had such an appreciation of the exchange value of our currency—we came very near performing a miracle in the modern age. From silver to gold, from gold to gold exchange, from gold exchange back to silver and from silver to gold again—our peregrinations had been as desired and

dictated by Whitehall, causing severe injury to the country's interests.

The high rate of exchange was recommended on many grounds including the altruistic one that it would cheapen imports and thus contribute to a lessening of discontent. Mr. D. M. Dalal, the only Indian member of the Committee, strongly opposed all this and wrote a minute of dissent. He was for maintaining the old ratio of 1s. 4d., but his was bound to prove a cry in the wilderness.

In the teeth of strong popular opposition in the country, the Government decided to accept the majority recommendations and launched on a plan of a severe deflation—severer than the one adopted at the end of the last century in order to make effective a rate of exchange higher than the market rate.

On 2nd February, 1920 the Secretary of State fixed the price of one rupee at 11.30016 grains of fine gold. With the rupee so dear and sterling so cheap, there was bound to be a very large demand for the latter. All those interested in remitting money from India to England, including the importers and the British element in the Services, started demanding large amounts of sterling. The Government found it difficult to meet this enormous demand with the result that exchange began to sag. Though exchange rates in the free market dropped, the Government continued to offer to sell sterling at the statutory rate. Naturally, this stimulated a speculative demand for sterling. Yet, the Government obstinately went on selling sterling cheap. When they found it impossible to maintain exchange at 2s. gold, they retired to 2s. sterling and continued to fight the battle until September 1920 when they decided to desist from the attempt to maintain the fictitious exchange value of the rupee.

Much damage to Indian economy, however, had already been caused. 55 million pounds of sterling were sold at rates varying from 2s. to 2s. 10d. At the old exchange rate of 1s. 4d. the total loss to India must have been something like 24 million sterling. Even gold was sold at prices cheaper than those prevailing in the open market. Thus for some time there continued a virtual loot of India's sterling and gold. The lucky few who got allotments from the Government

either of sterling or gold made their pile without any effort. Sir Malcolm Hailey, the then Finance Member, when asked who was responsible for this loot, whether Whitehall or Delhi, said in reply: "I regret it is not within the power of Government to answer these inquiries."

But this does not complete the story of India's suffering. India's favourable balance in respect of her private trade in merchandise amounted to about 126 crores in 1919-20. The next year the favourable balance was converted into an unfavourable one, the deficit being something like 80 crores. India's industries were either crippled or ruined. All that came to be accumulated during the war in the shape of gold or sterling was squandered without any compunction.

During the war, India was not paid for her goods and services in gold or goods, but only in sterling. She had expected to gain some advantage in the post-war period through a proper utilisation of her sterling resources. But before India could wake up to utilise her holdings, they were made to vanish in thin air. And she was saddled with huge budgetary deficits, besides. From 1918-19 to 1922-23 there were budgetary deficits amounting to nearly 100 crores of rupees.

But did the Government drop the 2s. rate? No. The exchange rate had sunk to 1s. 4d., but the Government still continued to stick to the fictitious rate of exchange in the hope that by deflationary measures they would some day be able to achieve their object. Mr. C. H. Kisch, Financial Secretary, India Office, stated that "Government felt it incumbent upon itself to take such indirect measures as might tend towards checking the fall in exchange and as might create conditions favourable to its gradual recovery."

When by August 1921 the exchange rate had fallen below 1s. 4d. India demanded that it should be stabilised at about 1s. 4d. But the India Office had its own designs. What they wanted was to push up exchange by deflationary measures so that it could be helpful to imports. By August 1925 exchange had gone up to slightly above 1s. 6d. Even the Government of India then did not like that there should be further appreciation, and so cabled to the Secretary of State on 8th October, 1924 saying "we are convinced that the time has come when we should decide against any attempt to push

the rupee above 1s. 6d.....the stringency in the market is the direct outcome of Government action in contracting currency ....The volume and importance of the opposition to this policy is increasing." But the Secretary of State would not listen. The Government of India again pressed their point. They said both Indian industry and export trade would be adversely affected by any higher rate. The outcome was another Commission to put its seal of approval on what was now a *fait accompli.*

The 1s. 6d. Rate

The Gold Standard was restored in Great Britain in May 1925 and on August 25th in the same year was appointed the Hilton Young Commission to report on the Indian Exchange and Currency system and practice.

The Commission's labours occupied about a year and it submitted its report in July 1926 by which time the 1s. 6d. gold rate had been effective for about a year as a result of the deflationary policy pursued by the Government.

The majority of the Commission, as was anticipated, recommended stabilisation at this rate mainly on the ground that prices had preponderantly adjusted themselves to this rate, and that so far as wages were concerned "considerable progress had been made in the process of adjustment." Indians knew that the technique of first making the rupee scarce, forcing up the exchange value thereby and then appointing a commission to get its approval in favour of the *fait accompli* had been practised too often. There was only one independent Indian member on the Commission, *viz.*, Sir Purshotamdas Thakurdas. He strongly dissented from the recommendations of the majority. He exposed the hollowness of the arguments employed by the majority and contended that it was dangerous in the interest of India to fix exchange so high when economic adjustment to the rate recommended was far from complete and when there were actual apprehensions in well-informed circles of a fall in gold prices. "Insistence on stabilisation at 1s. 6d.", he wrote, "will not only produce, but will prolong the profound disturbance of economic conditions throughout India which is just beginning to be perceived, and the worst effects of which are still to come"—words

which had almost a prophetic ring about them. A similar warning had been given by Mr. Dalal when opposing the 2s. gold rate. He had said: "The probabilities are that with the higher sterling cost of the rupee, the demand for Indian produce will fall off, while remittances from India being cheaper in rupees, imports will be stimulated. If these probabilities should materialise, India's trade balances will become less favourable to her than they have been or it may be the trade balances will turn against her." The rulers paid heed to neither of the two warnings though, unfortunately, both turned out to be true to the letter.

The Hilton Young Commission had made a number of other recommendations with a view to the switch-over now to a gold bullion standard and the establishment of a Reserve Bank to be vested with the control of both currency and credit. Government decided to tackle the question of the ratio first and accordingly in 1927 they introduced a Bill in the Assembly as an interim measure providing for stabilisation at 1s. 6d. This caused a terrific storm throughout the country the echoes of which have not yet died out. In the Assembly, Government carried their point by the very narrow majority of 3 votes—68 against 65. The minority consisted of non-officials. The majority consisted almost wholly of the nominated element including the official bloc. No other issue debated in the Assembly has perhaps aroused public interest in the same degree nor can one recall another occasion on which canvassing for votes on the official side was characterised by the same methods as on this.

The course of events after the fateful decision on the issue was a confirmation of the worst fears of Government's critics. With the exception of 1928, exchange remained presistently weak and in maintaining it Government dissipated India's gold and silver assets, added to her unproductive debt, dealt a stunning blow to her trade and industry, brought the country's credit to the verge of collapse and aggravated the distress which the Depression was to bring in its train. Deficit budgets with increased taxation became a normal feature of this period.

The annual absorption of currency in the quinquennium preceding World War I was on an average about Rs. 22½

crores. In the quinquennium ending 1919-20 the figure was about Rs. 50 crores. But from 1920-21 to 1930-31 there was deflation to the tune of about Rs. 133 crores. All this had to be done to maintain fictitious rates of exchange—at first 2s. gold, then 2s. sterling and then 1s. 6d. gold. The bank rate in Calcutta ruled as high as 6 to 8 per cent and the monetary stringency experienced by trade and industry was paralleled only by what they had had to go through in the nineties before 1s. 4d. came to be stabilised.

The Indian producer, chiefly the agriculturist, found himself between two fires and his plight can be better imagined than described. "If gold prices fall—and Indian prices must follow such a fall—India will be faced with a still bigger fall, the double effect of the operation of the present rate of 1s. 6d. and also the world fall." Sir Purshotamdas had said this in his note of dissent and the possibility he had envisaged became a reality when the Depression came and the Indian masses whose mainstay is agriculture were hard hit by the slump on one side and by a bloated exchange rate on the other.

By September 1931, England had to go off the Gold Standard. India followed suit, with this difference that the rupee was not left free to find its own level but was linked to sterling at the same old rate of 1s. 6d. To this day it has remained so linked. When one reviews the position of war expenditure in World War II incurred by His Majesty's Government in India and financed by the Indian Government causing thereby a great increase in currency circulation and accumulation of sterling assets in the United Kingdom, one cannot help feeling that the rupee should never have been linked to sterling.

When the great Depression in the thirties came, India suffered more than any other civilised country. The fall in the index of general prices was greater in India than in many other countries, but the depression in agricultural prices was more marked and prolonged.

In regard to commercial crops like raw cotton, raw jute and oil-seeds, which had to be sold in the market or exported, the fall in prices had the effect of cutting the income of the agriculturist by one-half generally. Even in respect of food crops the farmer was forced to retain a smaller proportion

of his produce for his own use and sell the rest at greatly reduced prices in order to meet the fixed money dues in the form of land revenue, interest and debts, rent, etc., and to secure consumption articles for cash such as cloth, sugar, kerosene, etc.

This was characteristically reflected in the sphere of exports. The value of India's export trade tumbled from Rs. 319·15 crores in 1927-28 to Rs. 132·27 crores in 1932-33, the nadir of the Depression, and even in 1936-37 was only Rs. 196·13 crores. But the important fact about it was that it did not reflect a proportionate decline in the physical volume of the commodities exported. There was no doubt a reduction in the quantity of exports, but the fall in prices was the more important cause of the collapse of agricultural incomes.

In consequence of the fall in prices, the burden of rural indebtedness rose from Rs. 900 crores in 1928-29 to Rs. 1200 crores by 1933 which in real terms amounted to Rs. 2200 crores, assuming that no repayment of debt or payment of interest was made. There was grave distress in the rural areas, a big fall in land values, an increased unwillingness to lend, demand for greater security and contraction of credit. Sales of cattle, ornaments, household articles and lands were the common means of meeting dues and buying necessaries.

It would have been difficult—almost impossible—for Government to maintain the link if they had not received adventitious aid from the export of gold on a huge scale which now came to be a feature of India's foreign trade. Between 1931-32 and 1939-40, the total value of such gold exports was nearly Rs. 382 crores. Things would have been too bad but for the contribution made by such exports to the maintenance of the surplus which enabled India to meet her liabilities under various heads and for the support which they thus brought to exchange. The large exports of gold, however, were only an indication of the plight of the agriculturist who was now living on his capital.

Government policy in the era was one absolutely of do-nothing. They maintained a high ratio and refused to reduce it, contracted currency, inflicted crushing taxes and surcharges on trade, industry and agriculture, undertook no public works or industrial construction, but took credit for

adherence to orthodox finance. This sums up the history of a decade of distress.

The Hilton Young Commission had recommended the establishment of a central banking institution vested with control of both currency and credit. No progress could be made with the necessary legislation for some years because of the controversy aroused time and again by the Government's proposals relating to the Bank's constitution. Ultimately a compromise was reached in the Legislature and the relative measure having been passed, the Reserve Bank of India was inaugurated on the 1st April, 1935.

World War II

This brings us to World War II which is yet to come to an end.

Much that has happened in the field with which we are concerned here is but a repetition of history inasmuch as there has again been a large visible and invisible export of goods and services on account of His Majesty's Government for which India has received no tangible *quid pro quo*, the procedure adopted being, as in World War I, to expand the currency here against sterling bills placed in the reserve in London. In other words, we have had to supply those goods and services on credit and in the process we have come to accumulate sterling balances amounting in July 1944 to nearly £ 750 million. This is after making adjustments which have included the repatriation of India's sterling debt and the net result of which has been to transform her from a debtor to a creditor country.

This transformation has cost India dear, for she has been making those goods and services available to the Allied Powers only by practising greater and greater self-denial verging on starvation. India's standard of living was low enough, and it was further lowered so that England might have what she needed. The result has been an all-round decline in India's consumption of goods, including the very necessaries of life. There is no desire to belittle the contributions made by other countries within the British Empire, but there is not the same uniqueness about them as about India's. Countries like Canada or Australia or South Africa have had a much

higher standard of living. The lowering of that standard in their case, therefore, was not as much of a sacrifice as in the case of India who could ill afford to tighten her belt any further. So far as real consumable wealth is concerned, India has much less to-day than she had at the outbreak of war, for she has stinted and starved herself in order to make available a large variety and quantum of goods as well as services for the success of the Allied cause. And India has made this supply at prices which compare very favourably with those which the ordinary consumer has had to pay in respect of his own purchases. One may cite only one instance out of many by referring to the sale by India to Great Britain of large quantities of silver at prices far below those ruling in the market here or in the United States at the time. Many other articles were supplied at controlled prices which were much below the market rates. All this shows how unique India's sacrifice has been. India has famished, not fattened, as a result of the war. To misrepresent the fact is to add insult to injury. The millions who died of famine—a war product—were no less war casualties than those who died in battle-fields.

Some have spoken glibly of the famine and scarcity being solely due to the increase in the volume of currency and have prescribed as the panacea for our economic ills a substantial reduction in that volume. This prescription is based on a wrong diagnosis.

The late Governor of the Reserve Bank of India rightly remarked:

"Though there has been a considerable rise in prices in India, I do not consider that this is the result of the increase in currency, but rather the two phenomena together are the unavoidable result of the large purchases of goods and services being made by the British Government in India for which they gave us sterling which we exchange for rupees. Unless this increase in purchasing power can be met by an equal increase in the supply not only of the articles being directly purchased by the Government but also of the foodstuffs and other necessaries of life. . . . there is bound to be an increase in commodity prices in this country."

The theory that it is the increase in currency which is directly responsible for the scarcity and that the only way to

bring relief to the consumer is to mop up surplus purchasing power has come very handy as an excuse to those in authority whose only concern is to get finance in all possible ways without concerning themselves about its reaction on the economy of the people who needed an increased supply of goods, since war had become a new and a greater consumer of them. So the authorities with a fanaticism worthy of a better cause devoted themselves to draining money through high taxation and loans—voluntary or compulsory—and utterly neglected the question of increased production. This, as was bound to be, has not helped to improve the lot of the consumer. Black markets still flourish; the consumer's woes continue and even multiply because there is great scarcity of goods. In other countries production has increased during the war by leaps and bounds. In India, however, it has gained little ground. And even the level of industrial productivity that she reached in 1941, *viz.*, an index number of 129 had dropped in May 1944 to 113. Agricultural production has shown practically no increase. No mopping up of the so-called purchasing power can create more food or cloth. At best it can only lead to an even distribution of distress. And India wants not its distribution but elimination.

But while India has made little progress on the production side, her expenditure has grown enormously out of all proportion to her means. The following figures will tell the tale: India's military expenditure in 1938-39 was about 47 crores. For 1944-45 this was estimated at 277 crores. During the quinquennium 1940-41 to 1944-45 the total military expenditure has amounted to nearly 933 crores. This is exclusive of about 114 crores as Defence Capital expenditure and of the amounts spent on Civil Defence and other purposes connected with the war, which are included in Civil Estimates. The figures relating to Civil Expenditure for the Centre and the Provinces in 1938-39 were 40 crores and 86 crores respectively. The corresponding figures in 1944-45 were 87 crores and 119 crores.

The total expenditure, both Civil and Military, at the Centre and in the Provinces, has amounted to about 1820 crores over the five years 1940-41 to 1944-45 or an average

of about 364 crores against a pre-war average of about 185 crores.

Our net exports in the five years 1939-40 to 1943-44 as measured by our purchases of sterling totalled 527 crores. Over and above the visible exports, India supplied goods and services to His Majesty's Government which from the outbreak of war to 31st March, 1944 roughly totalled 920 crores. Thus our total visible and invisible export surpluses amounted during this period to nearly 1450 crores. This too may for the time being be treated as war expenditure since India had to sacrifice goods to that extent even while herself living on meagre subsistence rations. Thus India has been spending nearly 650 crores a year during the war against 185 crores before it. No wonder that since 1943 there have been famine, distress, disease and death. And this chapter has not yet come to a close. Our export surpluses which thus amounted to nearly 1447 crores did not bring us in return any other *quid pro quo* than I. O. U.'s of His Majesty's Government. This explains our sterling assets in England. Including a small reserve that we had at the commencement of the war, our total sterling assets amounted to above 1500 crores. After the repatriation of our sterling debt amounting to nearly Rs. 467 crores and after meeting other sterling commitments, we had sterling worth about Rs. 950 crores held by the Reserve Bank on the 31st March last. Since then the amount has grown to over Rs. 1000 crores.

The total notes issued and the assets held against them by the Reserve Bank before the outbreak of war and on 28th July, 1944 were as follows:

(*Crores of Rupees*)

	August 1939	*July* 1944
Total notes issued	217	945
Gold coin and bullion ..	44	44
Sterling securities	61	828
Rupee coin	75	15
Rupee securities	37	58

It will be thus seen that most of India's new currency since the commencement of war has been issued against ster-

ling holdings. India's sterling credits thus become a most important factor in the post-war economy of India. These sterling balances have been built up on the foundation of suffering and starvation and if England discharges her debt in an equitable manner, it should go a long way towards India's recuperation.

Neglect to increase production—agricultural and industrial—has brought about a serious calamity in India. Millions have died. And many more millions are suffering from want of food, cloth, housing and medicine. The distress will not end until efforts are made to increase production all around. There are enormous possibilities of increasing production and raising the standard of living by at least 100 per cent through planned economy. This could only be done if there was a Government that enjoyed the fullest confidence of the people and succeeded in securing their complete co-operation in the scheme that may be launched. Such a scheme could have only one object, the economic uplift of the people. No consideration for any interest that may clash with this object could be shown. A National Government alone can undertake such a bold enterprise. And even a National Government can succeed only if it had the sympathy and support of all sections of the people.